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INTRODUCTION

In accordance with the City Auditor's 1989-90 Audit Workplan, we have reviewed the Department of Recreation, Parks and Community Services' petty cash and change funds and revenue collection procedures. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

BACKGROUND

The Department of Recreation, Parks and Community Services (RPCS) maintains 40 petty cash funds with a total value of \$19,600. These funds are distributed among the Department's various offices, parks, and community centers. During the fiscal year ended June 30, 1989, approximately \$129,000 were expended through the Department's petty cash funds. RPCS also maintains 35 change funds at various revenue collection points. These 35 change funds have cumulative authorized limits of \$8,710.

RPCS also collects revenues from various leisure classes, activities, equipment rentals, parking, and other sources at the City's community centers, parks, and facilities. During the fiscal year ended June 30, 1989, RPCS collected about \$3,700,000 in fees and charges.

SCOPE AND METHODOLOGY

Our audit included a review of RPCS' procedures and controls relating to cash receipts and the handling and accounting for petty cash and change funds. We reviewed the City Finance Administrative Manual and the RPCS Cash Handling Procedures Manual and interviewed staff at the RPCS Administrative Offices and at the community centers to determine compliance with the prescribed procedures and controls and to identify potential cost savings and improvements in efficiency.

Department Is In General Compliance

As part of our audit, we made surprise counts of 13 petty cash funds and 9 change funds, totaling \$21,840. Our surprise counts covered 83 percent of the Department's petty cash funds and 64 percent of its change funds. Our audit also included a review to determine if those Department employees who handle City funds are properly authorized to do so.

Our review of the petty cash and change funds revealed that the Department generally complies with the City's and the Department's own procedures for handling of petty cash and change funds. Our surprise counts of 13 petty cash and 9 change funds revealed only minor variances in 3 petty cash funds and 2 change funds. Based on the results of our tests, we were satisfied that the Department employees who handle City funds are properly authorized to do so.

FINDING I

RECREATION, PARKS AND COMMUNITY SERVICES NEEDS TO IMPROVE ITS CONTROLS OVER LEISURE CLASS REVENUES

During 1988-89, the Department of Recreation, Parks and Community Services (RPCS) sponsored 1,344 leisure classes (LC) at the City's community centers and collected \$1,133,432 in fees from those classes. Our review revealed that RPCS' controls over LC revenues need to be improved.

Specifically, we observed that:

- LC receipt forms are not issued in numeric order;
- RPCS' Administrative Office uses a manual system to try and track LC receipt forms; and
- Department of Finance's tracking system for LC receipt forms is inefficient and ineffective.

As a result, we estimate that RPCS is exposed to the risk of losing between \$4,500 and \$13,000 per year in LC revenues to employee misappropriation or misuse. By using programmable cash registers, modems, and personal computers at its 21 community centers and Administrative Office, RPCS will significantly improve its controls over LC receipts and both RPCS and Finance will be able to use their staff resources more efficiently. Specifically, we estimate that automating RPCS' LC Revenue Control System will produce net savings of about \$4,000 in the first year and \$64,000 per year thereafter.

Recreation, Parks And Community Services Sponsored LC

To serve the citizens of San Jose, RPCS has established 21 community and senior centers. The following are the community and senior centers and their locations:

<u>WEST</u>	<u>CENTRAL</u>	<u>EAST</u>
Almaden 6445 Camden Ave.	Alma Seniors 136 W. Alma Ave.	Berryessa 14630 Noble Ave.
Camden Lifetime Activity Center 3369 Union Ave.	Gardner 520 W. Virginia Ave.	Evergreen 3200 Millbrook Dr.
Cypress Seniors 403 S. Cypress Ave.	Olinder 848 E. Williams St	Hank Lopez 1694 Adrian Way
Kirk 1601 Foxworthy Ave.	Roosevelt 901 E. Santa Clara St.	Mayfair 2039 Kammerer Ave.
Starbird 1050 Boynton Ave.	Solari 3590 Cas Dr.	Southside 5585 Cottle Rd.
Willow Glen 855 Pine Ave.	St. James Seniors 199 N. Third St.	Southside Seniors 5585 Cottle Rd.
Willows Seniors 2175 Lincoln Ave.	Watson 1082 E. Jackson St.	
Timpany 730 Empey Way		

Each community and senior center evaluates the recreational and human service needs of its constituents and develops recreational programs to meet those needs. The leisure classes which constitute these recreational programs include the following types:

- Arts and crafts;

- Computer training;
- Culinary arts;
- Dance;
- Fitness and exercise;
- Music and drama;
- Parent/toddler activities;
- Pre-school;
- Personal and professional growth;
- Pet training; and
- Sports and martial arts.

Registrant fees finance a large part of these leisure classes. RPCS' community centers collect these fees at the time of registration. During 1988-89, RPCS sponsored 1,344 leisure classes at the various community centers and collected \$1,133,432 in fees from those classes.

LC Receipt Forms Are Not Issued In Numeric Order

To document a participant's registration for a leisure class and the receipt of the registration fee, RPCS uses a 5-part, pre-numbered LC receipt form. The Department of Finance supplies RPCS with its receipt forms. RPCS uses as many as 28,000 LC receipt forms per year. Finance keeps track of the LC receipt forms it issues to RPCS by recording the numbers of the receipts issued in a personal computer. RPCS submits copies of the used 5-part LC forms to Finance with the collected revenues. Finance then inputs

the returned LC receipt form numbers into its personal computer. By so doing, Finance can periodically generate a list of missing LC receipt numbers and request RPCS to investigate those LC receipts that appear to be missing. The processing of LC receipt forms is described in Appendix B.

Through its computerized tracking system, Finance can theoretically identify potential problems relating to unremitted revenues or improper use of revenue documents. However, our review revealed that controls over LC receipt forms are not adequate because RPCS does not issue LC receipt forms numerically or even close to numerically. For example, we noted that a Finance printout of outstanding LC receipt forms dated March 19, 1990 showed 154 separate number sequences among the 4,953 outstanding numbers. If the LC receipt form usage were sequential, the outstanding numbers list would have shown a single large sequence of unused receipt numbers with isolated out-of-sequence numbers indicating the missing receipts, similar to the sequencing of outstanding check numbers in a checking account reconciliation.

Reasons For Non-Sequential Usage Of LC Receipt Forms

RPCS does not issue LC receipt forms numerically for the following reasons:

1. Leisure class registration takes place at 21 different community centers, with each center using its own series of LC receipt forms. Each center assigns a block of receipts for individual classes and instructs its staff to issue the receipts numerically. However, because the exact number of registrants in each class cannot be accurately predicted, a few receipts are usually left unused at the end of the

registration. This creates gaps in the numerical sequence of the LC receipt forms used.

2. The forms in each LC receipt packet are loose rather than bound. This makes it difficult for the community centers to keep track of each numbered form when the centers distribute the forms for the registrants to complete.
3. Although the community center staff members attempt to use the LC receipts in numeric sequence, they may not get the cooperation of the leisure class registrants. For example, a person registering for a class might make an error or change his/her mind and throw away the form rather than return it to the center's staff.

RPCS' Administrative Office Uses A Manual System To Try And Track LC Receipt Forms

Despite LC receipt form tracking difficulties, RPCS has attempted to control the numerical usage of the forms. For example, RPCS' Administrative Office manually logs LC receipt forms when it issues them to the various community centers. Specifically, RPCS' Administrative Office maintains a handwritten log which notes when and to which community center it issued each LC receipt, and when the receipt was used or voided. However, because the community centers cannot always issue LC receipts in numeric order, RPCS' Administrative Office cannot be certain that the community centers are turning in all the LC receipt forms used and the related revenues. As a result, RPCS is exposed to the risk of not detecting a community center employee enrolling a leisure class participant and collecting a fee but destroying the LC receipt forms and keeping the money.

It should be noted that RPCS has instituted some controls to help detect employees destroying LC receipts and keeping the related revenues. The first control is RPCS' requirement that any class registrant request for a refund must be noted on the Administrative Office copy (blue copy per Appendix B) of the LC receipt. Thus, if a registrant subsequently asked for a refund and there was no Administrative Office LC receipt form copy for that registrant, RPCS' Administrative Office would be alerted that something might be amiss. However, if the employee who kept the money instructed the registrant to go to him or her directly for any complaints or refund, this control could be defeated. Further, when we tested 64 leisure class refunds for compliance with this control, we found that for 15 of these 64 refunds, the Administrative Office copy of the LC receipt did not have the required refund notation.

The other RPCS control over LC receipt forms is the requirement that the leisure class instructor submit a class roster showing the receipt numbers assigned to each participant. In order for this control to work effectively, RPCS' Administrative Office staff would need to compare the class roster to the LC receipts to ascertain that the receipt numbers listed in the roster were valid. However, our review revealed that RPCS is not implementing this control effectively. Specifically, we reviewed 17 class rosters and found 9 errors that RPCS' Administrative Office should have investigated but did not. According to RPCS officials, lack of staff has prevented the Administrative Office from performing the required reconciliations of class rosters to LC receipt copies.

In our opinion, RPCS' manual tracking of LC receipt forms is, for all intents and purposes, unworkable and those mitigating controls that RPCS has instituted are inconsistently applied and susceptible to circumvention.

**Department Of Finance's Tracking System
For LC Receipt Forms Is Inefficient And Ineffective**

Although Finance maintains a separate tracking system for LC receipt forms, that system is both inefficient and ineffective. As was noted above, Finance uses a personal computer to track the LC receipt numbers it issues to RPCS. However, our review disclosed the following deficiencies in Finance's computerized tracking system for LC receipt forms.

1. Finance's tracking system does not ensure that all used receipts are recorded. For example, in a report dated December 31, 1988, Finance showed 238 missing receipts. However, we found that for 156 of these missing receipts RPCS had actually submitted the LC receipt form and the LC revenues. This indicates that Finance does not input into its system all the receipts that RPCS returns. This results in numerous LC receipts being erroneously classified as missing.
2. The computer equipment that Finance uses to track the LC receipt forms has inadequate capacity to handle the volume of data that the LC receipt form tracking process generates. As a result, Finance has to process the LC receipts in two separate groups. This causes problems and confusion when Finance attempts to match issued and used LC receipt forms.
3. Finance sends RPCS only a partial list of missing LC receipts for investigation. For example, as of June 30, 1989, Finance's LC receipt tracking system showed 5,253 LC receipts as missing. However, Finance sent only 91 of these 5,253 receipt numbers to RPCS for investigation. According to Finance staff, only those receipts suspected as being potential problems based on staff's judgment are sent to RPCS for follow-up. This approach does not appear to be in

conformance with Finance's written instructions to its staff. Finance's instructions do not say anything about staff sending only suspected missing receipts or what criteria should be used to select which missing receipts should be investigated.

4. Finance reviews for missing LC receipts only every six months. Such a schedule makes it difficult for RPCS to investigate the LC receipts that truly are missing. As a result, RPCS frequently provides perfunctory explanations for missing LC receipts, such as "Missing, please void."

In our opinion, neither RPCS' manual log nor Finance's computerized tracking system can be relied upon to identify and resolve improper uses of LC receipts or any misappropriations of LC receipts. For example, when we requested RPCS to account for the approximately 5,000 outstanding LC receipts that were in Finance's system as of December 31, 1989, RPCS could not do so for 73 LC receipts. In addition, RPCS reported that 12 LC receipts were reported as voided but could not locate the document references evidencing such voiding. Further, we tested voided LC receipts that RPCS submitted to Finance during January and February 1990. Of the 53 voided LC receipts we tested, we could not verify that 13 of them were in fact voided. Based upon our review of missing and improperly voided receipts, we estimate that RPCS potentially lost between \$4,500 and \$13,000 in leisure class revenues in 1989. It should be noted, however, that we did not identify any evidence of actual RPCS employee misuse of LC receipts.

RPCS Can Improve Revenue Controls By Using Programmable Cash Registers, Modems, And Personal Computers

In general, the control deficiencies we noted over RPCS' LC revenues relate to the use of LC receipts to account for these revenues. The current

paper-based, manual tracking system is inherently cumbersome and ineffective. Actually, it is commendable that RPCS staff was able to account for all but 85 of the approximately 5,000 LC receipts that were outstanding as of December 31, 1989.

In our opinion, RPCS needs to adopt a control system that is more efficient and effective. This can be achieved if RPCS switches to a system that uses cash registers, modems, and personal computers.

Elements Of RPCS' LC Revenue Control System

Based upon discussion we had with RPCS staff, we have concluded that the following features should be made a part of RPCS' LC revenue control system:

- The system should have 21 cash registers (1 for each of the 21 community centers) and 22 personal computers with modems and printers (1 computer/modem/printer for each of the 21 community centers and 1 for the Administrative Office). RPCS will also need software to operate the cash registers and the personal computers and to allow the community centers and the Administrative Office to communicate with one another.
- LC registrants should be issued numerically sequential cash register receipts, rather than the LC receipt forms, to document their payments.
- The computer at the community center, rather than the instructor, should generate the class roster based on the participants who have paid.
- RPCS staff at the community centers should balance cash receipts daily against the cash register tape. This will save RPCS staff time

since the cash register can automatically print the revenue details and totals. Under RPCS' current system, RPCS staff at the community centers has to manually calculate and total LC receipts.

- RPCS staff should be able to promptly report, investigate, and resolve any cash shortages or overages that become evident from the daily reconciliation of the cash register tape to the cash.
- The revenue vouchers that RPCS submits to Finance-Treasury should be supported by cash register tapes rather than LC receipts. Finance's computerized LC receipt form tracking system and the manual receipt log that RPCS maintains would no longer be necessary.

Other Benefits Of The Recommended System

With the help of RPCS staff, we identified other benefits of the above type of LC Revenue Control System. These additional benefits include the following:

- The computer at the community center would automatically generate payment vouchers for the LC instructors.
- The computer would automatically generate mailing lists for brochure and flyer distribution as a means to maximize the marketing of RPCS' leisure classes and recreational programs.
- Required monthly statistical information regarding LC participants and revenues would be generated automatically. Currently, RPCS staff tabulates these statistics manually.
- RPCS staff would have legible computer-printed receipts and records for leisure classes. Currently, the pink and hardcopy portions of the LC receipts are often illegible.

Costs/Savings Analysis

Our analysis of the costs and savings of the above LC Revenue Control System indicate savings to the City of about \$4,000 for the first year of implementation and \$64,000 per year thereafter. These savings are from the staff hours that are currently spent administering and tracking LC receipts, which would no longer be required under the system described above. These staff hours relate to the following tasks that would no longer be required:

- At RPCS' Administrative Office: Manually logging receipt forms received from Finance; logging receipt forms issued to community centers; logging voids and refunds; batching and forwarding used receipts to Finance; numerically filing departmental copies of LC receipts; following up and investigating missing receipts; responding to Finance regarding missing receipts.
- At RPCS' community centers: Ensuring that registrants return all receipt forms; manually balancing revenues to receipts; distributing receipt copies; accounting for missing receipts; manually tabulating participant and revenue statistics.
- At Finance-Accounting: Inputting issued and returned receipt numbers into its tracking system; printing the LC receipt numbers for RPCS follow-up; recording RPCS' follow-up responses.

According to RPCS and Finance management, the staff time spent on the above tasks can be better spent on other more important activities. The following summarizes our estimate of the costs/savings that a new RPCS Revenue Control System would produce:

	<u>First Year</u>	<u>Subsequent Years</u>
COSTS		
Equipment and software	\$52,000	\$-0-
Maintenance and supplies	2,950	3,540
Staff training	6,080	-0-
Staff operational changes	<u>6,080</u>	<u>7,200</u>
Total cost	\$67,110	\$10,740
SAVINGS		
Staff hours that can be reassigned to other tasks:		
RPCS	\$65,000	\$68,250
Finance-Accounting	<u>6,000</u>	<u>6,300</u>
Total savings	<u>71,000</u>	<u>74,550</u>
NET SAVINGS	<u>\$3,890</u>	<u>\$63,810</u>

It should be noted that the above estimate of equipment costs assumes that those community centers with computers that can be used with the proposed cash registers will not need to purchase new computers. In addition, the above estimates of equipment and maintenance costs are based upon inquiries we made of randomly selected vendors. As a result, our estimates are lower by about \$14,000 than the City's Information Systems Department (ISD) and Purchasing Department estimated prices. These estimates are based upon suggested guidelines that limit City departments to purchasing certain brands of ISD compatible computer equipment. In our opinion, because each community center's computer will be a "stand alone" computer and not connected to ISD's computers, RPCS should be allowed to purchase equipment that deviates from ISD's suggested guidelines, thereby saving the City \$14,000. However, we suggest that RPCS consult with ISD on the appropriate specifications to meet RPCS' needs.

CONCLUSION

Our review of RPCS' controls over LC revenues revealed that:

- LC receipt forms are not issued in numeric order;
- RPCS' Administrative Office uses a manual system to try and track LC receipt forms; and
- The Department of Finance's tracking system for LC receipt forms is inefficient and ineffective.

As a result, we estimate that RPCS is exposed to the risk of losing between \$4,500 and \$13,000 per year in LC receipts to employee misappropriation or misuse. By using programmable cash registers, modems, and personal computers at its 21 community centers and Administrative Office, RPCS will significantly improve its controls over LC receipts and both RPCS and Finance will be able to use their staff resources more efficiently. We estimate that automating RPCS' LC Revenue Control System will produce net savings of about \$4,000 in the first year and \$64,000 per year thereafter.

RECOMMENDATIONS

We recommend that the Department of Recreation, Parks and Community Services:

Recommendation #1:

Consult with ISD in acquiring cash registers, personal computers, modems, and printers for its 21 community centers and Administrative Office as a means to automate its Leisure Class Revenue Control System. (Priority 2)

Recommendation #2:

Coordinate with the Finance Department to develop procedures to process and document leisure class registrations and account for cash receipts under Recreation, Parks and Community Services' new Leisure Class Revenue Control System. (Priority 3)

FINDING II

COMPLIANCE WITH RPCS' LEISURE CLASS REFUND POLICY IS LAX AND SOME LEISURE CLASS INSTRUCTORS ARE NOT ADHERING TO CLASS ROSTER SUBMITTAL REQUIREMENTS

The Department of Recreation, Parks and Community Services (RPCS) has a very restrictive policy regarding refunds of leisure class (LC) registration fees. In addition, RPCS has instituted a control to deter illegitimate refunds by requiring refund requests to be noted on the Administrative Office copy of the LC receipt. Further, RPCS' procedures require refunds of \$250 or less to be paid through the Department's Refund Checking Account while refunds exceeding \$250 are to be paid by City check through FMS. Finally, the contract RPCS signs with LC instructors requires them to sign and submit a roster before RPCS pays for the class. However, our review revealed that RPCS: 1) has been very lax in granting refunds for LC classes, 2) has not consistently recorded the required refund information on the Administrative Office's copy of the LC receipts, 3) processes virtually all refund checks through FMS, regardless of amount, and 4) has paid some LC instructors who did not submit the required signed class rosters. In our opinion, RPCS should modify its refund policy and procedures, pay refunds of \$250 or less through a Refund Checking Account, standardize its fee withholding policy, and implement additional class roster reviews. By so doing, RPCS will: 1) improve compliance with Department procedures, 2) allow FMS to better utilize about \$39,000 worth of machine and staff time per year, 3) consistently make refunds, 4) ensure that leisure class participants are enrolled in their respective classes, and 5) effectively control the preparation of and accounting for LC receipts.

RPCS Refund Policy And Procedures

In its schedule of leisure classes, RPCS states its refund policy as follows:

“No refunds will be made unless a class is cancelled or changed.”

This policy has been in effect for more than 10 years.

According to RPCS’ procedures manual, when a registrant requests a refund, community center supervisors are to verify the registrant’s eligibility for a refund. If the registrant is eligible, the supervisor documents the refund by filling out a Refund Request Form. The Principal Recreation Supervisor or Superintendent reviews the completed Refund Request Form and forwards it to RPCS’ Administrative Office where a Revenue Clerk verifies that the original payment was made and processes the refund payment. RPCS’ procedures also require the facility supervisor to determine the amount to be forfeited for reservation cancellation, withdrawal from an activity or event, or damages incurred. RPCS’ procedures do not, however, prescribe how forfeited amounts are to be calculated or provide facility supervisors with a criteria for determining such amounts.

Compliance With RPCS' LC Refund Policy Is Lax

Our review for compliance with RPCS' LC refund policy and procedures revealed that RPCS does not comply with its own policy to limit refunds to instances of leisure class cancellation or change. We also noted that for refunds of \$250 or less, RPCS' procedures require that the registrant be paid out of a separate RPCS checking account. However, we observed that RPCS has been processing these LC fee refunds through the City's Financial Management System (FMS) instead. Finally, we noted that RPCS' community centers have inconsistently withheld amounts from those registrants who paid to reserve a leisure class and then cancelled the reservation or withdrew from the class.

Refunds Were Made For Ineligible Reasons

During 1989-90, RPCS issued 1,288 LC fee refunds, totaling \$35,681. Of this amount, RPCS refunded \$12,674 (36%) for reasons other than those specified in its refund policy (class cancellation or class change) and overpayments. Leisure class registrants gave reasons such as "Personal time conflict", "Second choice class", "Signed up for too many classes", "Vacation", and "Going out of town" to justify these refunds.

According to RPCS staff, the Department routinely grants refund requests to ensure good customer relations. In addition, RPCS' staff said that the Department's current refund policy is too restrictive and should be expanded to include medical or health reasons or circumstances beyond the registrant's control.

**A Revenue Control Procedure Of RPCS
Is Inconsistently Followed And Not
Included In The Written Procedures**

Of the revenue controls that RPCS has instituted, one is not in RPCS' written procedures. It requires leisure class registrants' requests for refunds to be noted on the Administrative Office's copy of the LC receipt. Thus, if a registrant subsequently requests a refund and there is no Administrative Office LC receipt form copy on file for that registrant, RPCS' Administrative Office would be alerted that something might be amiss. However, when we tested 64 leisure class refunds for compliance with this control, we found that 15 of these refunds did not have the required refund notation on the Administrative Office file copies of the LC receipts.

Refunds Regardless Of Amount Are Processed Through FMS

RPCS' procedures require that refunds of \$250 or less be paid through the Refund Checking Account while refunds exceeding \$250 are to be processed through FMS. However, our review disclosed that RPCS processes virtually all LC refunds, regardless of amount, through FMS. We noted that RPCS annually processed through FMS approximately 1,300 refunds, some of which were as small as \$4.

According to RPCS officials, the Department has been processing LC refunds through FMS because it is more efficient to do so. Appendix C compares the procedures for processing refunds through the Refund Checking Account with the procedures for processing refunds through FMS. As shown in Appendix C, RPCS has to follow five additional procedural steps if the Department uses the Refund Checking Account. Aside from

writing the refund checks, RPCS staff would have to obtain two authorized signatures, mail the refund checks to the registrants, send the check stubs to Finance for subsequent reconciliation, and summarize the refund checks by account number. RPCS does not have to do these steps when it processes checks through FMS.

While it appears that processing the LC refunds through FMS is more efficient for RPCS than processing the refunds through the Refund Checking Account, the cost to the City may actually be more if the cost of the incremental FMS workload is considered. Prior to the implementation of FMS, Finance estimated the processing cost of a special payment demand at approximately \$100 per check. Finance has not determined the cost of a City check under FMS. However, even assuming that the cost to process a check through FMS is only 30 percent of the cost under the old system, the City would be able to use about \$39,000 worth of FMS machine and staff time more efficiently each year if it did not process RPCS' refund checks of less than \$250.

Furthermore, by processing refunds through its Refund Checking Account, RPCS will improve its management control over these transactions by requiring two authorized signatures and ensuring that each refund is independently and thoroughly reviewed. In addition, RPCS' refund check stubs will also provide a record of LC refunds that will facilitate subsequent reviews for potential abuse and errors.

Finally, processing a refund through the Department's Refund Checking Account rather than FMS will enable RPCS to reduce customer waiting time. According to RPCS staff, the Department-generated checks

are processed at least ten days faster than FMS-generated checks. This faster LC refund turn-around time will increase customer satisfaction and foster improved relations between RPCS and its citizen-customers.

In our opinion, RPCS should adhere to its written procedures and process refunds of \$250 or less through its Refund Checking Account. To improve the efficiency of the processing of refund checks, RPCS should consider automating its checkwriting process by using in-house personal computers and checkwriting software.

Inconsistent Withholding Of Non-Refundable Fees For Reservation Cancellations Or Withdrawals

As mentioned above, RPCS procedures require community center supervisors to determine how much registrants should forfeit when they cancel a LC reservation, withdraw from an activity or event, or damage RPCS property. Our review disclosed that RPCS' community centers have inconsistently withheld non-refundable portions of LC payments. For example, some community centers withhold \$5 as a non-refundable fee, while other centers refund the full amount.

In our opinion, RPCS' procedures should indicate an amount that all community centers should withhold in the event of registration cancellations, activity or event withdrawal, or property damage. By standardizing the non-refundable amount for all the community centers, RPCS' community center supervisors will be able to make refunds consistently and not appear to be arbitrary or unfair.

Some LC Instructors Are Not Adhering To Class Roster Submittal Requirements

RPCS requires each LC instructor to maintain a class roster showing the participants' names and LC receipt form numbers. Before RPCS pays an instructor, he or she is supposed to sign and submit the class roster to RPCS' Administrative Office upon completion of the class. This procedure is primarily designed to ensure that the participants shown on the roster are enrolled in the class.

As part of our audit, we reviewed the rosters for 17 leisure classes. Of the 17 rosters we reviewed, 2 had not been signed by the instructors. As a result, RPCS paid some LC instructors who had not submitted the contractually-required, signed class rosters.

RPCS' LC roster requirement is also designed to ensure that LC registrants pay what they should and the community centers prepare and account for all LC receipts. Our review of 17 LC rosters indicated that RPCS did not always use LC rosters to achieve those assurances. Specifically, for the 17 class rosters we reviewed, we noted 2 registrants for whom no LC receipt form numbers were recorded. We also noted 2 LC receipt form numbers that were listed on LC rosters that did not agree with the Administrative Office's copies of those receipt forms. Finally, we identified class enrollments of 5 LC registrants that were different than the classes shown on the LC receipt forms.

To ensure that the participants shown on the class rosters are actually enrolled and to effectively control the preparation of and accounting for LC receipts, RPCS staff should implement additional procedures. These

procedures should include a review of leisure class rosters for contract compliance and the comparison of listed LC receipts to the Administrative Office's copies of the receipt forms.

CONCLUSION

Our review of RPCS' compliance with its LC refund policy and class roster submittal requirements revealed that RPCS: 1) has been very lax in granting refunds for leisure classes, 2) has not consistently recorded the required refund information on the Administrative Office's blue copy of the LC receipts, 3) processes virtually all refund checks through FMS, regardless of amount, and 4) has paid some LC instructors who did not submit the required signed class rosters.

In our opinion, RPCS should modify its refund policy and procedures, pay refunds of \$250 or less through a Refund Checking Account, standardize its fee withholding policy and implement additional class roster reviews. By so doing, RPCS will improve compliance with Department procedures, allow FMS to better utilize about \$39,000 worth of machine and staff time per year, consistently make refunds, ensure that the participants shown on the class rosters are actually enrolled, and effectively control the preparation of and accounting for LC receipts.

RECOMMENDATIONS

We recommend that the Department of Recreation, Parks and Community Services:

Recommendation #3:

Amend its refund policy to include medical or health reasons or circumstances beyond the registrant's control. (Priority 3)

Recommendation #4:

Establish procedures to enforce its refund policy. (Priority 3)

Recommendation #5:

Use the Department of Recreation, Parks and Community Services Refund Checking Account to pay refunds of \$250 or less. (Priority 3)

Recommendation #6:

Consider automating its refund checkwriting process by using in-house personal computers and checkwriting software. (Priority 3)

Recommendation #7:

Establish and enforce a policy regarding non-refundable fees for reservation cancellations or withdrawals. (Priority 3)

Recommendation #8:

Require all leisure class instructors to sign their class rosters and submit them to the Department of Recreation, Parks and Community Services' Administrative Office for administrative review. (Priority 3)

Recommendation #9:

Modify its refund written procedures to include requiring leisure class registrants' requests for refund to be noted on the Administrative Office's blue copy of the leisure class receipt. (Priority 2)

FINDING III

RPCS' PROCEDURES FOR SAFEGUARDING PETTY CASH AND CHANGE FUNDS NEED IMPROVING

The Department of Recreation, Parks and Community Services (RPCS) has extensive procedures for safeguarding 75 petty cash and change funds totaling \$28,310 at: 1) RPCS' Administrative Office, 2) 21 community centers, and 3) 12 parks, museums, and swim centers. However, our review revealed that safe procedures were not followed at 10 community centers. In addition, we identified that RPCS could improve its controls over petty cash and change funds by providing better separation of duties and addressing security deficiencies at Lake Cunningham Park.

Petty Cash And Change Fund Procedures

RPCS has a cash handling procedures manual that covers the various aspects of departmental cash handling and recording. The RPCS' manual is in addition to the City's Administrative Manual and the City's Finance Administrative Manual. The RPCS Cash Handling Procedures Manual covers various topics such as: Internal Audit of Assigned Funds, Refunding Fees and Security Deposits, Safe Procedures, and Reporting Cash Shortages and Overages.

The purpose of RPCS' manual is to provide all of its employees current and detailed cash handling procedures. RPCS expects its employees to comply fully with these procedures. All RPCS managers and supervisors are instructed to insure that all operations under their jurisdiction are in full

compliance. The introduction to the manual states that *“Any variance to a procedure must be requested in writing and must be approved by the Director of Recreation, Parks and Community Services.”* RPCS’ cash handling manual also provides for proper dissemination of the procedures among its community centers and a process for updating the manual.

Safe Procedures Not Followed At Ten Community Centers

We reviewed safe procedures at ten community centers for compliance with the RPCS Cash Handling Procedures Manual. The results of our review showed that the community centers were not complying with several prescribed procedures. These instances of noncompliance are summarized below.

Manual Requirements

A log shall be maintained for each safe in use in the Department and shall be used to reflect the deposit or withdrawal of all items into or from the safe including revenue, petty cash funds, or change funds.

The Supervisor is to establish the use of a Safe Log which includes ... the name of the facility ... (and) page numbers.

(The Depositor should) sign (his/her) name so that it can be read.

(The Safe Log should indicate) the date the deposit/input is made to the safe.

The Principal Recreation Supervisor ... reviews the Safe Log monthly, ... verifies monthly that all items currently on the log are in the safe, ... (and) states on the Safe Log that a verification has been made and signs the Safe Log.

The Supervisor ... documents the date and names of employees receiving the safe combination on the Safe Log, and maintains a current listing of authorized employees.

Observed Noncompliance

One of the ten community centers started its Safe Log only in July 1990.

Seven community centers did not identify the facility on their Safe Logs. Logs at five of the ten community centers did not show the required page numbers.

Of the ten community centers, four centers used ditto marks instead of signatures in Safe Logs.

At one community center, the recording of the deposit date was not consistent.

At eight community centers, the Logs showed no evidence that the monthly verification was performed.

At four community centers, there were no current listings of authorized employees.

The purpose of the Safe Log is to document the deposit and withdrawal of all items into or from the safe, including revenue, petty cash, and change funds. During 1988-89, RPCS collected almost \$3,700,000, of which \$1,244,000 was collected at community centers. In addition, petty cash transactions for 1988-89 totaled more than \$129,000. Because of the amount of funds that need to be secured pending deposit with the City Treasury, the RPCS Cash Handling Procedures Manual requires that a log be maintained for each safe in use in the Department. Without properly completed Safe Logs, the security of funds temporarily deposited in community center safes cannot be assured.

Departmental Verification Of Petty Cash And Change Funds Is Not Performed Independently

RPCS' Cash Handling Procedures Manual states that:

“It is the policy of the Parks and Recreation Department to conduct semi-annual internal audits of all petty cash, change funds and checking accounts assigned to the Department, to audit funds each time custodianship changes, and to audit funds when they are closed out.”

The manual designates the immediate supervisor of the fund custodian as the auditor of the petty cash, change fund, or checking account and specifies the dates on which the semi-annual audits are to take place.

In our opinion, audits of petty cash, change funds, and checking accounts would be more effective if they were performed on a surprise basis rather than every six months. Surprise audits will give fund custodians an

incentive to keep their funds balanced and their transactions properly documented on a continuous basis.

Lake Cunningham Park Petty Cash And Change Fund Controls Can Be Improved

Lake Cunningham Park experienced the following unexplained shortages/overages during 1989-90:

- September 1, 1989--shortage of \$240;
- September 10, 1989--overage of \$100;
- October 10, 1989--shortage of \$100; and
- April 28, 1990--shortage of \$97.

The park uses the Marina cash register to collect revenues from Marina rentals and merchandise sales. The 1988-89 revenues from these sources totaled \$41,300.

Although the required daily balancing of cash to the revenue records was performed, the shortages/overages could not be traced to the responsible employees because security for the Lake Cunningham Park safe was too lax. Specifically, eight RPCS employees were officially allowed access to the safe, and it is not known how many people know the combination to the safe. In addition, security for Lake Cunningham Park's cash register was also too lax in that at least two cashiers use the concession cash register at any given time.

Accounting texts state that defalcations often result from the failure to adequately segregate duties and restrict access to assets. RPCS' inability to identify which of its Lake Cunningham employees were responsible for the above cash shortages evidences that access to cash is too permissive.

To ensure adequate control over cash at Lake Cunningham, RPCS should have only one cashier working each cash register drawer and require cashiers to balance their cash receipts daily. Furthermore, RPCS should limit the number of Lake Cunningham employees who have access to the safe. Finally, the Safe Log procedures prescribed by the RPCS Cash Handling Procedures manual should be strictly enforced.

RPCS' Lake Cunningham Park Is Buying A New Cash Register To Improve Cash Controls

As a result of the Auditor's recommendation to improve cash handling controls at Lake Cunningham, RPCS has ordered a new cash register with two separate cashier drawers and independent locks. This improved feature will allow two cashiers to use the cash register independently during a work shift without commingling their funds. Specifically, each cashier will use a separately assigned and locked drawer and the cash register will identify the transactions for which each cashier is accountable.

CONCLUSION

The Department of Recreation, Parks and Community Services has extensive procedures for safeguarding its petty cash and change funds. However, our review revealed that safe procedures are not followed at some

of the RPCS community centers. In addition, we observed that RPCS could improve its controls over petty cash and change funds by providing better separation of duties and addressing security deficiencies at Lake Cunningham Park.

RECOMMENDATIONS

We recommend that the Department of Recreation, Parks and Community Services:

Recommendation #10:

Enforce the safe procedures prescribed in its Cash Handling Procedures Manual at its 21 community centers. (Priority 3)

Recommendation #11:

Perform surprise audits of petty cash and change funds instead of scheduled semi-annual audits. (Priority 3)

Recommendation #12:

Assign only one cashier at a time to a cash register drawer at Lake Cunningham Park and require cashiers to balance their cash receipts daily. (Priority 2)

Recommendation #13:

Limit the number of employees who have access to the safe at Lake Cunningham Park. (Priority 2)

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